

Bargains driving corporate mergers

By HEIDE B. MALHOTRA
Epoch Times Staff

Most companies no longer grow organically—that is, through innovation, research, and development—but increasingly are acquiring competitors or up-and-coming firms with new products or access to new markets.

Especially during times of economic hardship, cash-rich companies go on a hunting spree to identify new opportunities. In a recession, companies with sagging sales revenues and tenuous cash positions face the greatest risk of a takeover.

Bargain hunting for struggling companies without doing one's homework, including reviewing the company's culture, product mix, life cycle of the product, and the market in which it operates, could backfire, according to a recent study by Knowledge@Wharton (KW), the research arm of the University of Pennsylvania's Wharton School of Business.

KW says that between 40 percent and 60 percent of all acquisitions fail because companies don't evaluate risks and benefits carefully.

"Companies need to have a plan as to whether they can integrate relevant knowledge and divest what was holding back the company," KW said in its report.

TECHNOLOGY SECTOR MATURING
Wharton professors suggest that technology companies are entering their mature life cycle stage, when organic growth slows and companies seek mergers and acquisitions (M&A).

"The technology industry is evolving. You can see it mature," said Saikat Chaudhuri, professor at Wharton, in the report.

"Tech companies are demonstrating the patterns we see in industries with more longevity," said Andrea Matwysyn, another Wharton professor.

According to KW, the technol-



MERGER HOTBED: The central business district in downtown Hong Kong. Global corporate mergers and acquisitions are heating up, especially in East Asia. MIKE CLARKE/AFP/GETTY IMAGES

ogy sector in general is lacking the drive to innovate, and is exposed to infighting for power as well as colliding cultures due to acquisitions and other problems inherent in maturing industry sectors.

"One thing is certain: The acquisitions will persist as the technology industry continues to mature," KW said.

ON THE PROWL FOR BARGAINS
Sam Palmisano, CEO of International Business Machines Corp. (IBM), said his company will spend around US\$20 billion on acquisitions over the next five years, according to KW.

Multinational technology companies including Dell Inc., Hewlett-

Packard Co., Oracle, and IBM have traditionally acquired competitors during recessionary times.

Palm Inc. was losing market share over a number of years, and despite innovative developments and approaches, it could not turn around its fortunes. HP jumped in when Palm reported a third quarter net loss of \$22 million in March and acquired the company for \$1.2 billion. The merger closed this month.

On the heels of Apple Inc.'s iPad tablet computer release, HP said in a July 1 statement that "HP's global scale and financial strength plus Palm's award-winning webOS experience, as well as its acclaimed Pre and Pixi smartphone prod-

uct lines, enhance HP's ability to participate more aggressively in the highly profitable, \$100 billion smartphone and connected mobile device markets."

Another frequent buyer is commercial software giant Oracle Corp., led by Silicon Valley mogul Larry Ellison. Since 2005, Oracle has bought a combination of 66 product lines or companies that offered database, applications, and server and storage systems. The latest purchase for \$94 million was signed in May for eServ Global's Universal Service Platform.

"Through our acquisition activities, Oracle seeks to strengthen its product offerings, accelerate innovation, meet customer demand more rapidly, and

expand partner opportunities," Oracle said on its website.

Sun Microsystems Inc. reported a \$1.7 billion loss in the first quarter of 2009, and its share prices plummeted. In April 2009, Oracle bought Sun when its stock price had dropped to \$9.50 per share.

ACQUISITIONS ON THE GLOBAL STAGE
"For many years, Asian companies were reluctant to embark on international acquisition as a strategy. They didn't have the capital or borrowing capabilities to make big purchases," KW said.

On the reverse side, restrictions on company ownership in developing markets have made it almost impossible for Western companies

to buy into Asian markets.

Today, cash-rich Asian companies are on a buying spree worldwide.

Given economic hardships, as the saying goes, beggars can't be choosers. Economically hard times bring great opportunities. "Asia players are buying into developed markets. When business is going well, companies are more hesitant to be bought," KW said.

As some Asian governments have eased restrictions in general and on foreign company ownership specifically, American and European companies have also expanded to Asia.

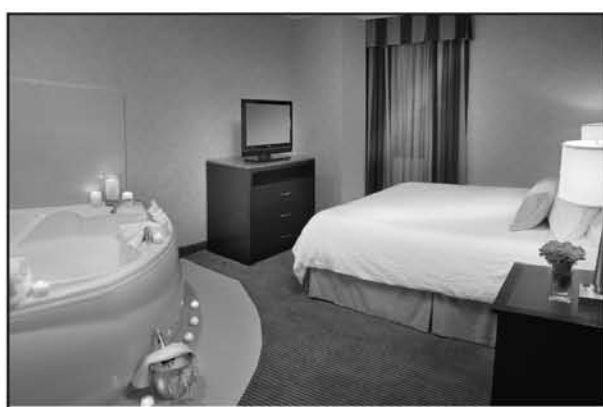
2007 was a hot year for merger-related activities in Asia, with \$278 billion in M&A activity. Despite the economic downturn, 2009 saw \$625 billion in M&A activities in the region.

India has become a hotbed of merger-related activities, with 300 M&A deals during the first six months of 2010, an increase of close to 70 percent over the past year and a 27 percent increase over the same period in 2009, according to India's Business Standard.

In June, Bharti Airtel Ltd., an Indian mobile provider, acquired the Kuwait-based Zain Group's mobile operations in 15 African countries, valued at \$10.7 billion. Several top global banks advised Bharti, including Standard Chartered Bank PLC, Barclays Capital, and the SBI Group.

In May, Abbott Laboratories, a U.S. pharmaceutical care company, acquired Piramal Healthcare Solutions from India's Piramal Healthcare Ltd. (which claimed to be the front runner in India's pharmaceutical industry) for \$2.12 billion to be paid over four years.

"We want to expand in emerging markets, and you can't be taken seriously without having a strong or dominating presence in India," said Michael Warmuth, senior vice president at Abbott, in a recent KW article.



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Apple \$3.25 billion earnings exceed expectations

By JACK PHILLIPS
Epoch Times Staff

Surpassing analysts' expectations, Apple Inc. reported a net income of US\$3.25 billion during the third fiscal quarter, according to a press statement released by the company on Tuesday.

Apple posted a record revenue of \$15.7 billion, compared with a revenue of \$9.73 billion in the previous year's third quarter. Their net quarterly profit was \$3.25 billion compared with \$1.83 billion, at \$3.51 per diluted share.

Some analysts predicted that Apple would be at \$3.11 a share and the BBC reports that the company's shares went up 3.4 percent when news of their better-than-expected earnings was released. Analysts also predicted that the company would post revenues of \$14.75 billion.

"It was a phenomenal quarter that exceeded our expectations all around, including the most successful product launch in Apple's history with iPhone 4," said Apple CEO Steve Jobs in a statement.

The iPhone 4's launch has been somewhat marred by reports that the product has antenna problems.

Jobs added, "iPad is off to a terrific start, more people are buying Macs than ever before, and we have amazing new products still to come this year."

iPhone sales increased to 8.4 million, a 61 percent increase over third quarter of 2009. The company sold 9.41 million iPods, which represented an eight percent decline from the previous third quarter.

Apple unveiled their iPads during the third quarter, selling 3.27 million of them.

The sale of Macs was increased by 33 percent with approximately 3.47 million Mac computers sold, representing a new quarterly record for the Cupertino, California-based company.

"We're really pleased to have generated over \$4 billion of cash during the quarter," Apple CFO Peter Oppenheimer said in a statement. "Looking ahead to the fourth fiscal quarter of 2010, we expect revenue of about \$18 billion and we expect diluted earnings per share of about \$3.44."

THE MARKETING CORNER



A mother peruses back-to-school items at a department store with her children in tow. The back-to-school shopping season offers retailers a tremendous opportunity to advertise their promotions. TIM BOYLE/GETTY IMAGES

Upcoming key advertising opportunities

By ADELE LASSERE

There are many factors that come into play when deciding on the best times to advertise. Cost is typically one of the main factors. Other factors could be key timeframes when consumer attention is heightened.

The later part of July heading into August offers one such timeframe—the back-to-school shopping season. Consumers are frantically shopping for the best values in preparation for the new school year.

Back-to-school is not only for elementary, middle, or high school. Don't forget, college students have preparations to make as they head back for fall semester. All these groups offer a peak time of consumption for durable goods, groceries, clothing, and electronics.

Retailers relish this time of the year since it offers quantity. It's a time that the demand is typically high and almost every retailer can capitalize on the spending spree. Advertising should be a must during this time period since you already have a motivated shopper.

August is the beginning of pre-season football. Many avid fans have been waiting for the season to begin since it ended in February. This sea-

son will be watched with interest. Football offers another opportunity to consider advertising your product, service, and/or company.

Why football? As the second most popular spectator sport in Canada and the most-watched sport on television in the United States, it captures the elusive male segment, especially 18- to 34-year-olds. Now is the time to put your plans into motion to reach these consumers.

Beware that television advertising pricing is on the rise. So the sooner you buy your commercial time the better. Even cable is experiencing higher pricing.

With the holidays (Black Friday, Thanksgiving, and Christmas) right around the corner, be mindful that advertising pricing is spiking upward. It is becoming increasingly prudent to plan ahead and buy as early as possible. Remember that old wife's tale: the early bird gets the worm.

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